

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|---------------------------------|---|-------------------|
| Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name: <u>Willard Public Library</u> | County Calhoun |
| Audit Date June 30, 2005 | Opinion Date August 10, 2005 | Date Accountant Report Submitted To State: August 23, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|--------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|---|-----------------|-------------|--------------|
| Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC | | | |
| Street Address 750 Trade Centre Way | City Portage | State MI | ZIP 49002 |
| Accountant Signature  | | | |

Willard Public Library

**Financial Report
With Supplemental Information
June 30, 2005**

Willard Public Library

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Independent Auditor's Report

To the Board of Trustees
Willard Public Library

We have audited the accompanying financial statements of the governmental activities and each major fund of the Willard Public Library (the "Library") as of and for the year ended June 30, 2005 which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Willard Public Library as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Willard Public Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

August 10, 2005



A worldwide association of independent accounting firms

Willard Public Library

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of the Library:

- The first series of columns of the financial statements includes information on the Library's various funds under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The library as a whole financial statement columns provide both long-term and short-term information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Willard Public Library

Management's Discussion and Analysis

Condensed Financial Information

The table below compares key financial information in condensed format with comparison to prior year:

| | 2005 | 2004 |
|--|--------------|---------------|
| Current assets | \$ 4,046,318 | \$ 7,118,749 |
| Capital assets | 6,077,049 | 6,362,637 |
| Total assets | 10,123,367 | 13,481,386 |
| Long-term debt | 340,000 | 2,897,000 |
| Other liabilities | 284,154 | 571,470 |
| Total liabilities | 624,154 | 3,468,470 |
| Net assets: | | |
| Invested in capital assets, net of debt | 6,077,049 | 3,697,637 |
| Restricted for special purposes | - | 427,016 |
| Restricted for capital projects | - | 30,318 |
| Unrestricted | 3,422,164 | 5,857,945 |
| Total net assets | \$ 9,499,213 | \$ 10,012,916 |
| Revenue: | | |
| Property taxes | \$ 3,678,215 | \$ 4,321,335 |
| Other | 1,232,873 | 1,336,386 |
| Total revenue | 4,911,088 | 5,657,721 |
| Operating expenses - Library services | 5,352,494 | 4,588,092 |
| Nonoperating items - Loss on sale of equipment and costs associated with defeasance of debt | (72,297) | - |
| Change in net assets | \$ (513,703) | \$ 1,069,629 |

Willard Public Library

Management's Discussion and Analysis

Current Year Highlights

This year marked the 100th anniversary of the Willard Library Building. Additionally, it also marked the one-year anniversary of the Helen Warner Branch and "The Room" (our young adult area). Both of these new services have proven to be highly successful, as predicted. The new branch circulated 195,000 items in its first full year of operation and the young adult area experienced over 25,000 visitors after school. Willard Library continued to experience solid growth in both visits and circulation in year ending June 30, 2005. This year also saw the introduction of new electronic services like *Live Chat Homework Help* and downloadable books in MP3 format.

Library Budgetary Highlights

For the first time in the short history of Willard Library, (formed as an independent library in 1994), the City of Battle Creek broke its agreement with the Library, and captured over \$790,000 out of the Library budget. This act resulted in a loss of income that equals between .3-.4 mill. This dropped the actual millage level amount to a pre-1999 dollar level.

The Library also defeased bonds, therefore eliminating any debt carried by the Library taxpayer. These two events together dropped the Library General Fund fund balance to approximately \$3 million.

Library Funds

This year the Library created an additional Special Revenue Fund for the Non-Profit Alliance (NPA). The completion of the Branch and the elimination of our bonds resulted in the closure of the Capital Project and Debt Service Funds.

Next Year's Millage Rates

The Library's millage rate will remain at 2.0 for the next fiscal year. The Library will use any carryover from the 2004-2005 year as well as some program trimming to try and hold the fund balance at its current level. We will continually track our expenses and projections, both with and without TIFA monies, in order to assess and minimize the budgetary impact for the future. The goal here is to provide a quality library program, with high demand and service expectations, without seeking additional millage.

In the 2005-2006 year, the Library is estimated an additional loss of \$814,000 in revenue. That loss includes a \$430,000 capture of Library funds by the BCTIFA; \$218,000 from a new Agricultural Renaissance Zone (recoverable in 2006-2007); and \$166,000 that the Library agreed to contribute to downtown projects in order to avoid additional fund captures by the BCDDA.

At the end of this year, Willard Library expanded its program by building a debt-free branch; serviced the youth of our community by creating a Teen Room; eliminated any debt to taxpayers, and presented a solid fiscal picture without a tax increase.

Willard Public Library

Balance Sheet - Statement of Net Assets June 30, 2005

| | Individual Library Funds | | | | Library as a | |
|--|--------------------------|----------------------|-------------------|--|-------------------------|--|
| | Special Revenue Funds | | | | Whole | |
| | General Fund | NPA Fund Nonmajor | Endowment Fund | Balance Sheet - Modified Accrual | Adjustments (Note 2) | Statement of Net Assets - Full Accrual |
| Assets | | | | | | |
| Cash and cash equivalents (Note 3) | \$ 3,094,990 | \$ 138,489 | \$ 444,281 | \$ 3,677,760 | \$ - | \$ 3,677,760 |
| Receivables | 221,844 | 13,035 | 701 | 235,580 | - | 235,580 |
| Prepaid assets | 131,236 | 1,742 | - | 132,978 | - | 132,978 |
| Due from other funds | 1,742 | - | - | 1,742 | (1,742) | - |
| Capital assets - Net of accumulated depreciation (Note 4) | - | - | - | - | 6,077,049 | 6,077,049 |
| Total assets | <u>\$ 3,449,812</u> | <u>\$ 153,266</u> | <u>\$ 444,982</u> | <u>\$ 4,048,060</u> | 6,075,307 | 10,123,367 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 54,165 | \$ 13,400 | \$ - | \$ 67,565 | - | 67,565 |
| Accrued liabilities | 216,589 | - | - | 216,589 | - | 216,589 |
| Due to other funds | - | 1,742 | - | 1,742 | (1,742) | - |
| Deferred revenue | - | 138,124 | - | 138,124 | (138,124) | - |
| Long-term debt - Current portion | - | - | - | - | - | - |
| Total current liabilities | 270,754 | 153,266 | - | 424,020 | (139,866) | 284,154 |
| Long-term Debt - Net of current portion (Note 5) | - | - | - | - | 340,000 | 340,000 |
| Total liabilities | 270,754 | 153,266 | - | 424,020 | 200,134 | 624,154 |
| Fund Balance/Net Assets | | | | | | |
| Fund balances - Reserved for prepaid expenses | 131,236 | - | - | 131,236 | (131,236) | - |
| Unreserved Fund balances: | | | | | | |
| Designated for equipment purchases | 750,000 | - | - | 750,000 | (750,000) | - |
| Designated for sick payable | 332,000 | - | - | 332,000 | (332,000) | - |
| Designated for reserve fund | 727,896 | - | - | 727,896 | (727,896) | - |
| Undesignated | 1,237,926 | - | 444,982 | 1,682,908 | (1,682,908) | - |
| Total fund balance | <u>3,179,058</u> | <u>-</u> | <u>444,982</u> | <u>3,624,040</u> | <u>(3,624,040)</u> | <u>-</u> |
| Total liabilities and fund balance | <u>\$ 3,449,812</u> | <u>\$ 153,266</u> | <u>\$ 444,982</u> | <u>\$ 4,048,060</u> | | |
| Net Assets | | | | | | |
| Invested in capital assets - Net of debt | | | | | 6,077,049 | 6,077,049 |
| Unrestricted | | | | | 3,422,164 | 3,422,164 |
| Total net assets | | | | | <u>\$ 9,499,213</u> | <u>\$ 9,499,213</u> |

Willard Public Library

Statement of Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2005

| | Individual Library Funds | | | | | | Library as a whole | |
|--|--------------------------|----------------------|-------------------|----------------------|-------------------------|--|--------------------------|--|
| | Special Revenue Funds | | | | | Revenues and Expenditures - Modified Accrual | Adjustments (Note 2) | Statement of Activities - Full Accrual |
| | General Fund | NPA Fund Nonmajor | Endowment Fund | Debt Service Fund | Capital Project Fund | | | |
| Revenue: | | | | | | | | |
| Taxes | \$ 3,678,215 | \$ - | \$ - | \$ - | \$ - | \$ 3,678,215 | \$ - | \$ 3,678,215 |
| State sources | 154,161 | - | - | - | - | 154,161 | - | 154,161 |
| Penal fines | 289,708 | - | - | - | - | 289,708 | - | 289,708 |
| Fees and book fines | 165,229 | - | - | - | - | 165,229 | - | 165,229 |
| Interest | 72,321 | 1,553 | 6,581 | 22 | 323 | 80,800 | - | 80,800 |
| Local contributions and contracts | 128,652 | 259,314 | 11,385 | - | 5,500 | 404,851 | 138,124 | 542,975 |
| Total revenue | 4,488,286 | 260,867 | 17,966 | 22 | 5,823 | 4,772,964 | 138,124 | 4,911,088 |
| Expenditures: | | | | | | | | |
| Capital expenditures | 92,899 | - | - | - | 84,929 | 177,828 | (103,875) | 73,953 |
| Program services - Audiovisual, books and periodicals | 786,065 | - | - | - | 10,979 | 797,044 | (311,144) | 485,900 |
| Supporting services - General administration: | | | | | | | | |
| Personnel | 3,066,137 | 107,720 | - | - | - | 3,173,857 | 18,000 | 3,191,857 |
| Office supplies | 96,011 | - | - | - | - | 96,011 | - | 96,011 |
| Repairs and maintenance supplies | 18,459 | - | - | - | - | 18,459 | - | 18,459 |
| Purchased services | 219,285 | 153,147 | - | - | 2,703 | 375,135 | - | 375,135 |
| Interest payments | - | - | - | 55,180 | - | 55,180 | - | 55,180 |
| Communications | 70,318 | - | - | - | - | 70,318 | - | 70,318 |
| Insurance | 39,131 | - | - | - | - | 39,131 | - | 39,131 |
| Public utilities | 126,490 | - | - | - | 15,693 | 142,183 | - | 142,183 |
| Depreciation | - | - | - | - | - | - | 668,386 | 668,386 |
| Repairs and maintenance | 135,981 | - | - | - | - | 135,981 | - | 135,981 |
| Total supporting services - General administration | 3,771,812 | 260,867 | - | 55,180 | 18,396 | 4,106,255 | 686,386 | 4,792,641 |
| Total expenditures | 4,650,776 | 260,867 | - | 55,180 | 114,304 | 5,081,127 | 271,367 | 5,352,494 |

The Notes to Financial Statements are an
Integral Part of these Statements.

Willard Public Library

Statement of Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities (Continued) Year Ended June 30, 2005

| | Individual Library Funds | | | | | | Library as a whole | |
|---|----------------------------|----------------------|--------------------------|----------------------|-------------------------|--|----------------------------|--|
| | Special Revenue Funds | | | | | Revenues and Expenditures - Modified Accrual | Adjustments (Note 2) | Statement of Activities - Full Accrual |
| | General Fund | NPA Fund Nonmajor | Endowment Fund | Debt Service Fund | Capital Project Fund | | | |
| Excess of Revenue Over (Under) Expenditures | \$ (162,490) | \$ - | \$ 17,966 | \$ (55,158) | \$ (108,481) | \$ (308,163) | \$ (133,243) | \$ (441,406) |
| Other Financing Sources (Uses) | | | | | | | | |
| Bond defeasance: | | | | | | | | |
| Principal amount of bonds defeased | - | - | - | (2,665,000) | - | (2,665,000) | 2,665,000 | - |
| Costs associated with defeasance | - | - | - | (40,076) | | (40,076) | - | (40,076) |
| Loss on sale | | | | | | - | (32,221) | (32,221) |
| Operating transfers in | 68 | | | 2,754,391 | 78,231 | 2,832,690 | (2,832,690) | - |
| Operating transfers out | <u>(2,832,622)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(68)</u> | <u>(2,832,690)</u> | <u>2,832,690</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(2,832,554)</u> | <u>-</u> | <u>-</u> | <u>49,315</u> | <u>78,163</u> | <u>(2,705,076)</u> | <u>2,632,779</u> | <u>(72,297)</u> |
| Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses | (2,995,044) | - | 17,966 | (5,843) | (30,318) | (3,013,239) | 2,499,536 | (513,703) |
| Fund Balance/Net Assets - July 1, 2004 | <u>6,174,102</u> | <u>-</u> | <u>427,016</u> | <u>5,843</u> | <u>30,318</u> | <u>6,637,279</u> | <u>3,375,637</u> | <u>10,012,916</u> |
| Fund Balance/Net Assets - June 30, 2005 | <u>\$ 3,179,058</u> | <u>\$ -</u> | <u>\$ 444,982</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,624,040</u> | <u>\$ 5,875,173</u> | <u>\$ 9,499,213</u> |

Note I - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Library is located in the City of Battle Creek, Michigan and is governed by a five-member board. The Library is primarily funded through a tax levy, fines, and fees and charitable donations. Revenue is used to operate and staff the Library. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. The Library is a District Library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the school districts of Battle Creek, Harper Creek, Lakeview, and Pennfield. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Endowment Fund is used to account for revenues received for a specific purpose held in an endowment account.

The Debt Service Fund accounts for the annual payment of principal, interest, and expenses in connection with long-term debt.

The Capital Project Fund is used to account for the construction of a new branch of the library, and all expenses in connection with the project.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the Library as a whole full accrual financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Willard Public Library

Notes to Financial Statements June 30, 2005

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc., are depreciated using the straight-line method over the following useful lives:

| | |
|----------------------------------|-------------|
| Buildings | 20-50 years |
| Building improvements | 10-20 years |
| Furniture and fixtures | 5-10 years |
| Library books, periodicals, etc. | 10 years |
| Land improvements | 10-30 years |
| Equipment | 5-10 years |

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 15 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended June 30, 2005 when the proceeds of the levy are budgeted and available for the financing of operations.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund balances and the net change in fund balances of the Library's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

| | |
|--|---------------------|
| Total Fund Balance - Modified Accrual Basis | \$ 3,624,040 |
|--|---------------------|

Amounts reported in the statement of net assets are different because:

| | |
|---|------------------|
| Capital assets are not financial resources, and are not reported in the funds | 6,077,049 |
| Deferred revenue for revenue received but not earned | 138,124 |
| Compensated absences are included as a liability | <u>(340,000)</u> |

| | |
|--|----------------------------|
| Total Net Assets - Full Accrual Basis | <u>\$ 9,499,213</u> |
|--|----------------------------|

| | |
|---|-----------------------|
| Net Change in Fund Balances - Modified Accrual Basis | \$ (3,013,239) |
|---|-----------------------|

Amounts reported in the statement of activities are different because:

| | |
|--|------------------|
| Capital outlay is not an expense of the current period | 415,019 |
| Capital costs are allocated over their estimated useful lives as depreciation | (668,386) |
| Loss on disposal | (32,221) |
| Deferred revenue recorded for revenue received but not earned | 138,124 |
| Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements | (18,000) |
| Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt) | <u>2,665,000</u> |

| | |
|--|----------------------------|
| Change in Net Assets of Governmental Activities | <u>\$ (513,703)</u> |
|--|----------------------------|

Note 3 - Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated three banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Library had \$448,425 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices.

Willard Public Library

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk:

The Library places no limit on the amount the Library may invest in any one issuer. More than 5 percent of the Library's investments are in one financial institution's money market funds; these investments are 88.92 percent of the Library's total investments.

Note 4 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

| | Balance July 1, 2004 | Additions | Disposals and Adjustments | Balance June 30, 2005 |
|--------------------------------------|-------------------------|---------------------|------------------------------|--------------------------|
| <u>Assets not being depreciated:</u> | | | | |
| Land | \$ 980,185 | \$ - | \$ - | \$ 980,185 |
| <u>Depreciable capital assets:</u> | | | | |
| Furniture and fixtures | 946,532 | 10,582 | - | 957,114 |
| Equipment | 998,579 | 48,838 | (67,281) | 980,136 |
| Building and building improvements | 2,238,119 | 10,690 | (10,911) | 2,237,898 |
| Land improvements | 152,856 | 33,765 | - | 186,621 |
| Books, periodicals, etc | 5,139,532 | 311,144 | - | 5,450,676 |
| Subtotal | 9,475,618 | 415,019 | (78,192) | 9,812,445 |
| Less accumulated depreciation | (4,093,166) | (668,386) | 45,971 | (4,715,581) |
| Net capital assets being depreciated | 5,382,452 | (253,367) | (32,221) | 5,096,864 |
| Net capital assets | <u>\$ 6,362,637</u> | <u>\$ (253,367)</u> | <u>\$ (32,221)</u> | <u>\$ 6,077,049</u> |

Capital assets, including library books, are recorded at cost. Depreciation expense was \$668,386 for the year ended June 30, 2005.

Willard Public Library

Notes to Financial Statements June 30, 2005

Note 5 - Long-term Debt

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2005:

| | Balance July 1, 2004 | Additions | Deletions | Balance June 30, 2005 |
|---|-------------------------|------------------|---------------------|--------------------------|
| 2002 General Obligation Limited Tax Library Building and Site Bonds | \$ 2,665,000 | \$ - | \$ 2,665,000 | \$ - |
| Accrued sick payable | 322,000 | 32,000 | 14,000 | 340,000 |
| Total | <u>\$ 2,987,000</u> | <u>\$ 32,000</u> | <u>\$ 2,679,000</u> | <u>\$ 340,000</u> |

The Library's employees are granted 12 sick days per year. Unused sick leave may be accumulated up to certain limits. Employees are paid for unused sick leave upon retirement. A sick leave benefit of \$340,000 is recorded at June 30, 2005.

Interest expense for the year ended June 30, 2005 amounted to \$55,180.

During 2005, the Library defeased general obligation bonds. The Library deposited \$2,688,675 in an irrevocable trust for the purpose of generating resources for all future debt service payments of the defeased debt. At June 30, 2005, outstanding general obligation bonds of \$2,575,000 are considered to be defeased.

Note 6 - Battle Creek School District

The building and real estate used by the Library are being leased from the School District of the City of Battle Creek for \$1 per year, as stated in the agreement entered into with the School District in 1994. The fair market value of this lease is not known.

Note 7 - Defined Benefit Pension Plan

The Library participates in two defined benefit pension plans, the Michigan Public School Employees' Retirement System (MPERS) and the Municipal Employees' Retirement System of Michigan (MERS). The Library was previously included as part of the School District of the City of Battle Creek, Michigan. Employees formerly employed by the School District were eligible to continue participation in the MPERS plan. Employees hired after the District Library was formed are eligible to participate in the MERS plan.

Note 7 - Defined Benefit Pension Plan (Continued)

Michigan Public School Employees' Retirement System

Plan Description - The Michigan Public School Employees' Retirement System (MPERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the System result from the effects of implementing the School Finance Reform Act. Under these procedures, the Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals range from 12.99 to 14.87 percent for the period July 1, 2004 through June 30, 2005. Basic plan members make no contributions, but contribute to a Member Investment Plan (MIP) at rates ranging from 3.0 percent to 4.3 percent of gross wages. The Library's contributions to the MPERS plan for the years ended June 30, 2005, 2004 and 2003 were \$159,361, \$147,150 and \$143,559, respectively.

Post-employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the Library's total contribution to the MPERS plan discussed above.

Municipal Employees Retirement System of Michigan

Plan Description - The Municipal Employees Retirement System of Michigan (MERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Note 7 - Defined Benefit Pension Plan (Continued)

Funding Policy - The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, less a 4% contribution by employees. The Library's contribution rates ranged from 5.93 to 6.68 percent for the period July 1, 2004 through June 30, 2005 of the covered payroll to the plan.

Annual Pension Cost - For the year ended June 30, 2005, the Library made \$53,249 of contributions to the plan, based on the actuarial valuation. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0% investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) 0 – 4.2 percent per year attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over a 30-year period.

Three-year trend information:

| | Fiscal year ended June 30: | | |
|-------------------------------|----------------------------|-----------|-----------|
| | 2003 | 2004 | 2005 |
| Annual pension cost | \$ 33,001 | \$ 51,916 | \$ 53,249 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | - | - | - |

| | Actuarial valuation as of December 31: | | |
|---|--|------------|------------|
| | 2002 | 2003 | 2004 |
| Actuarial value of assets | \$ 277,834 | \$ 385,841 | \$ 517,723 |
| Actuarial accrued liability (entry age) | 323,242 | 502,433 | 659,228 |
| Unfunded (overfunded) AAL | 45,408 | 116,592 | 141,505 |
| Funded ratio | 86% | 77% | 79% |
| Covered payroll | \$ 723,837 | \$ 806,950 | \$ 960,286 |
| UAAL as a percentage of covered payroll | 6.3% | 14.4% | 14.7% |

Note 8 - Risk Management

The Library is exposed to various risks of loss related to property loss, errors, and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library participates in the Middle Cities Risk Management Trust and the Michigan Municipal League (risk pools) for claims relating to the above.

The shared-risk pool programs in which the Library participates operate as a common risk-sharing management program for school districts and municipalities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Funds Held by the Battle Creek Community Foundation

The Library is the beneficiary of endowment funds at the Battle Creek Community Foundation that are considered permanent endowments to benefit the Library. The endowments are within the Foundation and not part of the Library's General Fund. Investment earnings are reinvested into the Fund and amounted to \$45,924 for the year ended June 30, 2005. The amount of the endowment funds held at Battle Creek Community Foundation in the Campbell Fund, Denman Fund and Willard Library Fund approximates \$944,000.

During the year, the Library withdrew past earnings on principal from the endowment funds held at the Battle Creek Community Foundation totaling \$6,300 and placed the monies in the special revenue fund.

Note 10 - Postemployment Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2008.

Required Supplemental Information

Willard Public Library

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2005

| | Originally Adopted Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|---------------------------------|---------------------|---------------------|--|
| Revenue | | | | |
| Taxes | \$ 3,695,218 | \$ 3,689,441 | \$ 3,678,215 | \$ (11,226) |
| State sources | 151,045 | 155,000 | 154,161 | (839) |
| Penal fines | 285,000 | 295,000 | 289,708 | (5,292) |
| Fees and book fines | 120,000 | 140,000 | 165,229 | 25,229 |
| Interest | 70,000 | 55,000 | 72,321 | 17,321 |
| Local contributions and contracts | 198,337 | 130,051 | 128,652 | (1,399) |
| Total revenue | 4,519,600 | 4,464,492 | 4,488,286 | 23,794 |
| Expenditures | | | | |
| Capital expenditures | 142,000 | 115,000 | 92,899 | 22,101 |
| Program services - Audiovisual, books, and periodicals | 832,400 | 845,720 | 786,065 | 59,655 |
| Supporting services - General administration: | | | | |
| Personnel | 3,276,445 | 3,128,841 | 3,066,137 | 62,704 |
| Office supplies | 108,000 | 100,000 | 96,011 | 3,989 |
| Repairs and maintenance supplies | 28,000 | 21,000 | 18,459 | 2,541 |
| Purchased services | 257,300 | 233,300 | 219,285 | 14,015 |
| Communications | 124,740 | 82,310 | 70,318 | 11,992 |
| Insurance | 51,275 | 41,091 | 39,131 | 1,960 |
| Public utilities | 85,800 | 126,877 | 126,490 | 387 |
| Repairs and maintenance | 182,500 | 158,500 | 135,981 | 22,519 |
| Total supporting services - General administration | 4,114,060 | 3,891,919 | 3,771,812 | 120,107 |
| Total expenditures | 5,088,460 | 4,852,639 | 4,650,776 | 201,863 |
| Excess of Expenditures Over Revenue | (568,860) | (388,147) | (162,490) | 225,657 |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | - | 68 | 68 | - |
| Operating transfers out | 200,360 | (2,838,080) | (2,832,622) | 5,458 |
| Total other financing sources (uses) | 200,360 | (2,838,012) | (2,832,554) | 5,458 |
| Excess of Expenditures and Other Financing Uses Over Revenue and Other Sources | (368,500) | (3,226,159) | (2,995,044) | 231,115 |
| Fund Balance - Beginning of year | 6,174,102 | 6,174,102 | 6,174,102 | - |
| Fund Balance - End of year | <u>\$ 5,805,602</u> | <u>\$ 2,947,943</u> | <u>\$ 3,179,058</u> | <u>\$ 231,115</u> |

Willard Public Library

Required Supplemental Information Note to Budgetary Comparison Schedule – General Fund Year Ended June 30, 2005

Note - Budget Information

The annual budget is prepared by the Library director and adopted by the Library board of trustees; subsequent amendments are approved by the Library board of trustees. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The Endowment Fund did not adopt a budget since no expenditures were anticipated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (statement of revenue, expenditures and changes in fund balance - budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is available at the Library for inspection. There were no significant budget overruns during the year ended June 30, 2005.